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Strong quarter, aided by healthy realisation....

For Q3FY21, healthy realisations coupled with subdued operating cost (especially coking coal) is expected to push EBITDA/tonne of steel companies to a multi-year high. During the quarter, average domestic Hot Rolled Coil (HRC) prices were at ~₹ 46700/tonne, up 19% QoQ, 33% YoY. Furthermore, while during Q3FY21, average coking coal prices were down 1% QoQ on account of inventory lag impact, the reduction in coking coal costs for steel companies is expected to be in the range of US\$5-10/tonne. However, in Q3FY21, domestic iron ore prices witnessed a sharp uptick, up ~47% QoQ. The upsurge in iron ore prices is likely to limit the EBITDA/tonne uptick for non-integrated players. The EBITDA/tonne of Tata Steel (standalone operations) is expected to come in at ₹ 19000/tonne (₹ 12861/tonne in Q2FY21, ₹ 10123/tonne in Q2FY20). Domestic operations of JSW Steel are likely to report an EBITDA/tonne of ₹ 13000/tonne (₹ 10136/tonne in Q2FY21, ₹ 5598/tonne in Q3FY20). Even on the non-ferrous front, on a YoY basis, zinc and aluminium prices are up 10% and 9%, respectively. On a QoQ, zinc and aluminium prices were up 12% each. The uptick in base metal prices augurs well for the operating margins of non-ferrous players.

Base metal prices improve sequentially...

During Q3FY21, there was a sequential improvement in base metal prices. During the quarter, average zinc prices on the LME were at US\$2628/tonne, up 12% QoQ & 10% YoY while average lead prices were at US\$1902/tonne, up 2% QoQ, albeit down 7% YoY. Similarly, average aluminium prices on LME were at US\$1917/tonne, up 12% QoQ, 9% YoY while average copper prices on the LME were at US\$7178/tonne, up 10% QoQ and 22% YoY.

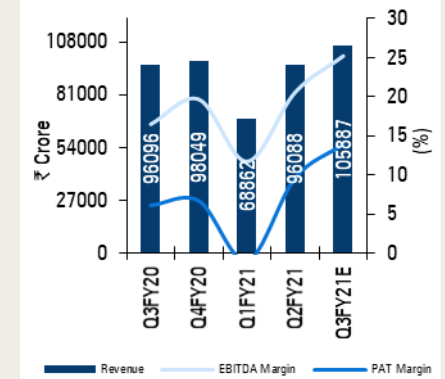
Aggregate EBITDA margins to increase QoQ, YoY...

We expect the aggregate topline of coverage companies to increase 10.2% YoY, 10.2% QoQ to ₹ 105887 crore. The aggregate EBITDA of the coverage universe is expected to increase 68.5 % YoY, 35.1% QoQ to ₹ 26689 crore. Aggregate EBITDA margin of the coverage universe is likely to come in at 25.2% (up 873 bps YoY, 464 bps QoQ). The EBITDA/tonne of domestic miner Coal India is likely to come in at ₹ 350/tonne with NMDC expected to report the same at ₹ 2700/tonne. We expect Novelis (Hindalco's subsidiary) to clock a blended EBITDA/tonne of US\$490/tonne (Novelis numbers inclusive of Aleris numbers).

Company	Revenue			EBITDA			PAT		
	Q3FY21E	YoY	QoQ	Q3FY21E	YoY	QoQ	Q3FY21E	YoY	QoQ
Coal India	24,625.0	6.2	16.4	5,415.0	9.0	36.2	4,052.0	3.3	37.3
Graphite India	545.0	-15.2	12.4	27.0	LP	LP	50.0	LP	LP
Hindalco	9,989.0	-2.6	4.4	1,413.0	9.4	10.8	358.0	36.6	9.5
Hindustan Zinc	5,792.0	24.0	2.3	3,128.0	36.7	6.0	2,173.0	34.1	12.0
JSW Steel	20,857.0	15.5	8.3	5,269.0	115.0	19.4	2,441.0	1,205.3	53.0
NMDC	4,540.0	51.0	103.6	2,546.0	60.0	147.2	1,960.0	42.4	153.2
Tata Steel	39,091.0	10.1	5.2	8,825.0	143.8	44.4	3,672.0	LP	124.6
Ratnamani Metal	448.0	-40.7	-22.4	66.0	-38.9	-19.5	41.0	-59.4	-28.1
Total	105,887.0	10.2	10.2	26,689.0	68.5	35.1	14,747.0	150.5	59.6

Source: Company, ICICI Direct Research, Hindalco results are Hindalco Standalone + Utkal

Topline & Profitability (Coverage Universe)



Movement of base metal prices on LME.

US\$/t	Q3FY21	Q3FY20	YoY(%)	Q2FY21	QoQ(%)
Zinc	2628	2387	10	2339	12
Lead	1902	2042	-7	1873	2
Alum.	1917	1756	9	1706	12
Copper	7178	5891	22	6524	10

Source: Bloomberg, ICICI Direct Research,

(₹)/t	Q3FY21	Q3FY20	YoY(%)	Q2FY21	QoQ(%)
Zinc	193858	170056	14	173935	11
Lead	140327	145473	-4	139288	1
Alum.	141419	125110	13	126913	11
Copper	529521	419668	26	485214	9

Source: Bloomberg, ICICI Direct Research,

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Exhibit 2: Company Specific View – Metals and Mining

Company	Write Up
Tata Steel	For Q3FY21, we expect Tata Steel's standalone operations to report an EBITDA/tonne of ₹19000/tonne (as compared to an EBITDA/tonne of ₹ 12861/tonne in Q2FY21 and ₹ 10123/tonne in Q3FY20). Indian operations (standalone) are expected to report steel sale of 3.4 million tonne (MT) while European operation steel sales are likely to come in at 2.1 MT. Additionally, Bhushan Steel is expected to report a sales volume of 1.3 MT. We expect European operations to report a EBITDA/tonne of US\$30/tonne. On a consolidated basis, the topline is expected to increase 10% YoY and 5% QoQ to ₹39091 crore. The consolidated EBITDA is expected to increase 44% QoQ and 144% YoY to ₹8825 crore. Consolidated EBITDA margins are likely to come in at 22.6% (as compared to 16.4% in Q2FY21 and 10.2% in Q3FY20).
JSW Steel	For Q3FY21, we expect JSW Steel's standalone sales volume to remain flattish both QoQ as well as YoY basis and come in at 4.0 MT. For the quarter, we expect JSW Steel to report a consolidated topline of ₹ 20857 crore, up 8% QoQ and 16% YoY, while consolidated EBITDA is likely to come in at ₹5269 crore, up 115% YoY and 53% QoQ. JSW Steel is likely to report EBITDA/tonne of ₹13000/tonne (₹5598/tonne in Q3FY20 and ₹10136/tonne in Q2FY21). Consolidated EBITDA margin is likely to come in at 25.3% (13.6% in Q3FY20 and 22.9% in Q2FY21).
Hindustan Zinc	During Q3FY21, zinc prices witnessed a steady uptick both on QoQ as well as YoY basis. In dollar terms, LME zinc prices during the quarter were up 12% QoQ and 10% YoY to US\$2628/tonne. On the other hand lead prices for Q3FY21 stood at US\$1902/tonne, down 7% YoY, up 2% QoQ. We expect zinc sales of ~180000 tonne (up 5% YoY, down 1% QoQ), lead sales of ~53000 tonne (up 27% YoY, down 7% QoQ) and silver sales of ~175000 kg (up 14% YoY, down 14% QoQ). The topline is likely to increase 24% YoY, 2% QoQ to ₹5792 crore, EBITDA is likely to increase 37% YoY and 6% QoQ to ₹3128 crore while PAT is likely to increase 34% YoY, 12% QoQ to ₹ 2173 crore. We expect the EBITDA margin to come in at 54.0% (compared to 49.0% in Q3FY20 and 52.2% in Q2FY21).
Hindalco	For Q3FY21 we expect Hindalco's domestic oprations (Standalone operations + Utkal) to report aluminium sales volume of ~319000 tonnes (328000 in Q3FY20 and 303000 in Q2FY21) and copper sales of ~73000 tonnes (75000 tonnes in Q2FY21 and 86000 tonnes in Q3FY20). We expect topline to come in at ₹ 9889 crore (down 3.0% YoY, up 4% QoQ). EBITDA margin is likely to come it at 14.1% (12.6% in Q3FY20 and 13.3% in Q3FY21). The subsequent EBITDA is likely to come in at ₹ 1413 crore, up 11% QoQ and 9% YoY basis. Novelis is likely to report sales volume of 925 KT and EBITDA/tonne of US\$490/tonne.
Coal India	For Q3FY21, Coal India reported coal offtake of 155 million tonne (MT), up 9% YoY and 15% QoQ. We expect the topline to increase 6% YoY to ₹ 24625 crore. The EBITDA margin is likely to come in at 22.0% (as against 18.8% in Q2FY21 and 21.4% in Q3FY20). We expect the company to clock an EBITDA/tonne of ₹350/tonne (as compared to ₹297/tonne in Q2FY21 and ₹350/tonne in Q3FY20).
NMDC	We expect NMDC report healthy performance for Q3FY21 on the back of successive price hikes taken by the company during the quarter under review. We expect NMDC to report sales volume of 9.4 MT for Q3FY21, up 12% YoY, 43% QoQ. Topline is expected to come in at ₹4540 crore, up 51% YoY, 104% QoQ. EBITDA is expected to come in at ₹2546 crore, up 147% QoQ, 60% YoY. EBITDA margin is likely to come in at 56.1% (52.9% in Q3FY20, 46.2% in Q2FY21). The ensuing PAT is likely to come at ₹1960 crore, up 42% YoY and 153% QoQ.
Ratnamani Metals & Tubes	For Q3FY21E, we expect Ratnamani to report subdued operational performance on the back of muted sales volumes for both Stainless Steel and carbon steel segment. We expect Ratnamani's stainless steel segment to report sales volumes of 4550 tonne (down13% QoQ, 27% YoY) and carbon steel segment to report sales volume of 48125 tonne (down 34% QoQ and 14% YoY). Ratnamani's topline is likely to decrease 41% YoY and 22% QoQ to ₹448 crore, while the EBITDA is likely to decrease 19% QoQ, 39% YoY to ₹66 crore. We expect the EBITDA margin come in at 14.8% (EBITDA margin of 14.2% in Q2FY21and 14.3% in Q3FY20). The ensuing PAT is likely to come in at ₹41 crore (down 60% YoY and 29% QoQ).
Graphite India	For Q3FY21E, on a consolidated basis, we expect Graphite India (GIL) to report capacity utilisation of 75% (45% in Q3FY20 and 60% in Q2FY21). For the quarter we expect Graphite India to report a consolidated topline of ₹ 545 crore (down 15 YoY, however up 12% QoQ). We expect the company to report consolidated EBITDA of ₹ 27 crore and consolidated net profit of 50 crore.

Source: Company, ICICI Direct Research

Hindustan Zinc Sales volume trend

Sales	unit	Q3FY21E	Q3FY20	Q2FY21
Zinc	Tonne	180048	172000	181000
Lead	Tonne	53188	42000	57000
Silver	Kg	175000	154000	203000

Source: Company, ICICI Direct Research,

JSW Steel: Sales Volume; EBITDA/tonne....

	Q3FY21E	Q3FY20	YoY	Q2FY21	QoQ
Sales Vol.	4.0	4.0	-1%	4.1	-3%
EBITDA/t	13000	5598	132%	10136	28%

Source: Company, ICICI Direct Research, Sales volume in MT, EBITDA/tonne in ₹/tonne.

Tata Steel: Sales Volume; EBITDA/tonne....

	Q3FY21E	Q3FY20	YoY	Q2FY21	QoQ
Sales Vol.					
India Op.	4.7	4.9	-4%	5.1	-8%
Europe Op.	2.1	2.4	-13%	2.3	-9%
EBITDA/t					
India Stand.	19000	10123	88%	12861	48%
Tata BSL	15000	2261	563%	8689	73%
Europe	30	-57	NA	-27	NA

Source: Company, ICICI Direct Research, Sales volume in MT, Indian Operations sales volume includes Tata Steel Standalone, Tata Steel BSL and Tata Steel Long products. Tata Steel (Standalone) and Tata Steel BSL EBITDA/tonne is in ₹/tonne, - Europe EBITDA/tonne in US\$/tonne.

Exhibit 3: ICICI Direct Coverage universe (Metals and Mining)

	CMP	TP	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹) Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Coal India	142	130 Hold	87928	27.1	22.2	22.9	5.2	6.4	6.2	3.0	4.6	4.7	55.5	40.2	40.1	51.9	39.0	36.9
Hindalco	260	240 Buy	58310	18.2	25.3	34.4	14.3	10.3	7.6	6.9	7.0	5.8	7.8	7.7	9.2	6.9	9.0	10.9
Hind Zinc	292	230 Hold	123210	16.1	17.1	21.1	18.1	17.1	13.8	11.5	10.6	8.0	20.8	25.5	27.4	16.9	23.5	24.1
JSW Steel	396	330 Hold	95637	19.5	16.7	33.5	20.2	20.2	10.1	12.7	10.0	6.5	7.2	8.4	13.3	12.7	9.8	16.5
NMDC	125	100 Hold	38213	11.8	11.6	9.0	10.6	10.7	13.8	4.5	5.0	5.5	20.3	14.3	9.9	13.1	11.3	8.3
Ratnamani	1620	1475 Buy	7572	65.8	53.1	73.8	24.6	30.5	22.0	17.6	21.4	15.3	22.2	16.1	21.8	18.0	13.1	15.7
Graphite Ind.	320	185 Hold	6261	2.0	-1.0	18.0	78.0	NA	10.5	NA	NA	3.6	-2.6	-5.7	4.4	1.0	-0.4	7.3
Tata Steel	692	625 Buy	79302	41.4	18.4	58.1	16.7	37.6	11.9	10.7	9.8	6.3	4.8	5.0	8.7	6.4	2.8	7.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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